



# County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA  
Chief Executive Officer

February 19, 2013

To: Supervisor Mark Ridley-Thomas, Chairman  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

A handwritten signature in black ink, appearing to read "W. T. Fujioka", is written over the printed name and title.

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## **STATUS OF EFFORTS TO COLLECT DEBT OWED TO THE LOS ANGELES SUPERIOR COURT (ITEM 35-B, AGENDA OF FEBRUARY 5, 2012)**

On February 5, 2013, your Board requested the Chief Executive Office (CEO) to report back on the status of efforts to collect the estimated \$2.2 billion of uncollected debt owed to the Los Angeles Superior Court (Court).

To clarify, the \$2.2 billion of uncollected court-ordered debt is a cumulative total for Los Angeles County. The Court's collection programs represent approximately 61 percent (\$1.4 billion) of the total uncollected, while the remaining 38 percent (\$885 million) is attributable to the Los Angeles Probation Department's collection program.

Below are current collection practices, the definition of when an account is deemed uncollectable, and an overview of the Court's collection efforts to date.

Generally, uncollected court fines and fees are referred to the collection agency when:

- The fine/fee has not been paid.
- A court appearance date was missed.
- A fine or restitution was not paid after an appearance in court.

Upon referral to the collection agency, additional penalties/assessments may be added to the amount owed. The collection agency will send a notice with the total amount due. Certain penalties/assessments may be waived, if an individual remits payment within 10 days of the first notice from the collection agency. Payments cannot be submitted to

the Court if the court fine/fee is delinquent and has been referred to collection. The collection agency must be contacted to arrange for payment.

### **Accounts Deemed Uncollectable**

Based on the previous contract, the contractor must achieve an overall minimum collection success rate of 15 percent commencing the second year of the contract. This target was imposed to ensure active engagement on the part of the contractor and in no way limits the contractor's access to inventory. The remaining accounts are not deemed uncollectable, but are actively pursued by the contractor for many years (Chart A). The contractor's commission rate is based in part on the assumption they will be allowed to work the accounts for several years. Accounts are considered uncollectable by the contractor only if a debtor is deceased or if the Court has withdrawn the account for administrative reasons (Attachment I). In Fiscal Years (FY) 2008 through 2010, the number of uncollectible accounts averaged 440.

Chart A

<b>Fiscal Year</b>	<b>Success Rate Year 2</b>	<b>Success Rate Year 3</b>	<b>Success Rate Year 4</b>	<b>Success Rate Year 5</b>
2006-07	25.51%	29.56%	32.36%	36.28%
2007-08	25.21%	29.32%	33.88%	
2008-09	25.14%	30.24%		
2009-10	23.25%			

Reflects collection efforts through five years of the previous contract.

### **Secondary Collection Efforts**

#### **Franchise Tax Board Court-Ordered Debt Program**

The Court has attempted secondary collections on uncollected debts primarily through other governmental agencies. Some years ago, the Court participated in a program with the Franchise Tax Board Court-Ordered Debt Program (FTB-COD). In FY 2004-05, the Court withdrew from the program due to problems with the FTB-COD over collecting on accounts.

After enhancements were made to the FTB-COD program, the Court reestablished secondary collection efforts with FTB-COD in FY 2006-2007. Accounts referred to this program are delinquent criminal fines/fees that have been worked by the contractor for more than three years (Attachment II). While the contractor is responsible for managing

the program, it does not receive any compensation on accounts referred to and collected by FTB-COD. The current FTB-COD collection rate is 9.6 percent. FTB-COD is responsible for these accounts for 18-24 months, after which uncollectible accounts are released back to the contractor's inventory and are considered for debt write-off (Attachment III).

#### Franchise Tax Board Tax Intercept Program

The recently Board-approved contract requires the contractor to refer selected non-criminal court debt to the Franchise Tax Board Interagency Tax Intercept Program (FTB-Tax Intercept) for secondary collections after three years. The contractor will be responsible for managing the program, but will not receive any compensation on accounts collected by the FTB-Tax Intercept program.

#### Treasurer and Tax Collector Pilot Program

In 2009-2010, the Department of Treasurer and Tax Collector (TTC) and the Court implemented a two-year pilot program for tertiary collection efforts on traffic accounts worked by the contractor for a period of five years. Two thousand traffic accounts valued at \$1,960,825 were referred to TTC. During the period of April 2009 through May 2011, a total of \$27,084 was collected with a success rate of 1.38 percent. Staff from TTC and Court reviewed the success rate and compared it to the costs to run the program. After consideration, both were in agreement that because of the very small percentage collected, the effort was not cost effective to the County or the Court.

#### County Counsel Opinion

Under California Penal Code Section 1463.010, counties and courts are required to establish a cooperative plan for the collection of court-ordered debt. In December 2005, the CEO and Court executed a Memorandum of Understanding (MOU) for the implementation of a comprehensive County/Court collection program, as required by Section 1463.010. The MOU may be terminated by either party upon 60-day written notice. However, additional changes to the collection efforts should be a part of the cooperative plan established jointly between the County and Court.

#### Conclusion

On February 12, 2013, in an effort to address the amount of uncollected debt owed to the Court, your Board directed:

Each Supervisor  
February 19, 2013  
Page 4

- The Auditor-Controller to conduct an audit of the County's existing court collections contract and report back in writing within 90 days.
- The CEO, in consultation with the Court, develop parameters for a Request for Proposal (RFP) for tertiary court collection efforts only; and
- The release of the RFP will not occur until the conclusion and findings of the audit by the Auditor-Controller are presented to your Board for consideration.

If you have any questions regarding this matter, please have your staff contact Georgia Mattera at (213) 893-2374.

WTF:GAM:SW  
VCI:cc

#### Attachments

c: Executive Office, Board of Supervisors  
County Counsel  
Superior Court  
Treasure and Tax Collector

CEO Court Debt Owed 021913

**Accounts deemed uncollectible by contractor**

Fiscal Year	# Cases	\$
2008-2009	637	\$461,096
2009-2010	249	\$135,905
2010-2011*	0	\$0
<u>Total</u>	<u>886</u>	<u>\$597,001</u>

\* Data through May 2011. No further accounts have been referred back to court due to the upcoming Amnesty Program.

Reasons the court would request an account to be returned:

Accounts referred in error.

The court receives a death certificate and notifies the contractor.

For the purposes of debt write-off

**LOS ANGELES SUPERIOR COURT  
STATUS OF COLLECTION ACCOUNTS**

Attachment II

	Estimated Annual Referrals		Total Accounts Receivable	
	Cases	\$ in Millions	Cases	\$ in Millions
Accounts Referred to Collection Vendor	480,498	380.2	1,500,000	1,200.0
Less(annual average):				
Adjudicated (23.27%)	(111,812)	(88.5)		
Contractor Success-5Years (22.56%)	(108,400)	(85.8)		
FTB COD/Intercept Referrals (2.20%)	(10,571)	(8.4)		
Amnesty			(1,050,000)	(800.0)
Deemed Uncollectible Referrals-2Years (.08%)	(384)	(0.3)		
Balance of Accounts (see NOTES 2 - 4)	249,715	\$197.6	450,000	\$400.0

**Notes**

- (1) Accounts are considered uncollectable by the contractor when a debtor is deceased or if the court has withdrawn the account.
- (2) Contractor continues to work balance of accounts.
- (3) Substantially reduced success rate after 5 years:
  - \* Average annual increase in success rate after 5 years is .3%
  - \* 2009 pilot program with TTC as secondary collector yielded 1.3% success rate. 2,003 delinquent traffic accounts valued at \$1,960,825 were referred. The selected accounts were already worked over 5 years prior to the referral.
- (4) A State Master Services Agreement List is available should the County consider a secondary collection vendor process.
- (5) The Financial Annual Report for FY 09/10 reflects an ending case value of \$1.2 billion, not \$1.5 billion. The \$1.2 billion reflects ending case values from the Contractor, FTB COD and FTB Tax Intercept.

FTB-COD RETURNED ACCOUNTS AFTER 24 MONTHS\*  
AS OF 8/8/2011

YEAR	# Cases	\$
2007	1,730	\$658,642
2008	11,991	\$4,693,683
2009	34,968	\$13,892,608
2010	20,494	\$8,398,560
2011	4,128	\$1,741,666
<b>TOTAL</b>	<b><u>73,311</u></b>	<b><u>\$29,385,159</u></b>

\*Accounts are not returned directly to court.

Accounts are returned to the collection vendor and worked again.